

## Montenegro

**The Development Challenge:** A constituent republic of the Federal Republic of Yugoslavia (FRY) until the dissolution of the FRY in March 2003, Montenegro became a constituent republic of the new state union of Serbia and Montenegro. Montenegro is approximately one-sixth the geographical size of Serbia with 616,000 inhabitants (less than one tenth of Serbia's population). The ethnic composition is considered to be predominantly Montenegrin and Serbian, with less than 25% Bosniak, Albanian, Croatian, and Roma. Currently, there are about 31,000 refugees and internally displaced persons, primarily from Kosovo, within Montenegro.

Elected President in October 1997, Milo Djukanovic was supported by a broad multi-ethnic coalition which ousted supporters of Serbian President Slobodan Milosevic from power. This laid the foundation for the democratization of Montenegrin society. Social and political life became more open, NGOs and the media enjoyed greater freedoms, and the Government of Montenegro (GoM) embarked upon a series of potentially far-reaching political and economic reforms. By 2000, Montenegro acquired a large degree of independence and established a separate economic system; however, it remained minimally subordinate to the FRY in foreign affairs and defense matters. The United States and the European Union welcomed the GoM's efforts to democratize society and provided critical financial and technical assistance for reforms.

Montenegro is more politically and economically stable now than it has been in over a decade. However, this has not yet led to high levels of growth or decreases in unemployment. Much remains to be done. The recently published Poverty Reduction Strategy Paper (November 2003) reports the absolute poverty rate in Montenegro to be 12.2% with more than one third of the population classified as economically vulnerable. Given regional variations, this figure is 19.3% in the north, representing 45% of the total poor in the republic. GDP remains near 1990 levels (about 1.4 billion Euros); unemployment, adjusted for the gray market, is 17%; the average recorded net wage in the formal sector is about 188 Euros; inflation in 2002 was 9.4%; international trade, excluding Serbia, yielded a deficit of \$402 million in 2002, though some of this was made up by tourism and other receipts to yield a current account deficit of \$161 million; and if arrears accumulation is considered, the deficit for 2002 is 39 million Euros.

In FY 2003, USAID built upon the legislative and institutional framework it helped to develop in past years and has become more constructively engaged in assisting and encouraging the government in the implementation of its ambitious reform agenda. Significant implementation gains were made in the financial sector; pension reform; the economic reform agenda; tax administration; local governance and community revitalization; democracy and human rights; and rule of law. The continuing challenge in the coming years will be to accelerate the pace of the GoM's reform agenda while renewing public confidence in the GoM to improve the quality of life.

The USAID program in Serbia and Montenegro is aligned to achieve the four strategic objectives enumerated in the joint State-USAID Strategic Plan. The intent of these objectives is to synchronize diplomacy and development assistance through 1) achieving peace and security; 2) advancing sustainable development and global interests; 3) promoting international understanding; and 4) strengthening diplomatic and program capabilities.

**The USAID Program:** To accelerate the development and growth of private enterprises, USAID concentrates on economic growth and job creation; competitiveness-building activities that seek to attract investment and drive exports; privatization of State-owned enterprises; increased access to credit and financial services; preparation of Montenegro for membership in the World Trade Organization; restructuring of fiscal, financial and banking systems; sound and prudential practices implemented in bank and non-bank financial institutions; reorganization and strengthening of tax administration; strengthening of private enterprise and free market institutions; and strengthening of commercial laws and related institutions.

To promote more effective, responsive, and accountable democratic institutions, USAID focuses on training for democratically-oriented parties; technical assistance for selected government institutions;

support for non-partisan efforts aimed at ensuring more participatory and fair election processes; building capacity of the civil society sector, independent media and trade unions; and anti-trafficking efforts. Due to the strong need to strengthen the rule of law in Montenegro, USAID will significantly expand efforts in this area in FY 2004 and concentrate on promotion of a better-trained, more efficient and democratically-oriented judiciary, legal profession, and court system; support for legal aid and human rights programs;

To increase and inform citizens' participation in political and economic decision-making, USAID will continue to concentrate on building trust in communities to demonstrate the value of citizen participation; provide technical assistance, training and information technology grants to improve local government customer focus and responsiveness; improve constituent access to and involvement in local government; and increase financial sustainability of local government.

The specific activities to be funded by FY 2004 and FY 2005 appropriations are described in more detail in the following Program Data Sheets.

**Other Program Elements:** USAID will, in conjunction with U.S. Treasury advisors, continue to advance the policy and economic framework for sustainable economic growth and the emergence of a viable private sector. U.S. Department of Treasury advisors will complement USAID's program and focus on financial crime investigation, tax implementation, budget and banking reforms. The Department of State will support Public Diplomacy and similar high priority programs, such as policy reform and training.

**Other Donors:** USAID has been the primary donor in Montenegro, but other donors have become increasingly active and coordinate closely with USAID. USAID recently handed over responsibilities to the British Department for International Development (DfID) and the European Agency for Reconstruction (EAR) for technical assistance to the Energy Regulatory Agency, and to the International Bank for Reconstruction and Development (IBRD) for the completion of the unbundling exercise at the state power company. DfID has also taken on some responsibilities in the banking sector, handling the deposit insurance program and the privatization of the last majority state-owned bank in Montenegro. In pension reform, the IBRD is planning a loan and technical assistance program to take over from USAID advisors improving efficiencies in the pension system. USAID is closely coordinating its efforts with EAR customs advisors in implementation of the Value-Added Tax and on development and implementation of the new treasury system, as well as municipal development efforts and the upgrading of border crossing facilities. The German Development Assistance Bank has provided a line of credit for small- to medium-sized enterprise lending to the Opportunity Bank, which was established in Montenegro with USAID support. With the ending of USAID budget support in FY 2003, the IBRD initiated a structural adjustment credit. The International Monetary Fund assists with monetary stabilization.

## Data Sheet

<b>USAID Mission:</b>	Montenegro
<b>Program Title:</b>	Economic Reform, Restructuring and Policy
<b>Pillar:</b>	Economic Growth, Agriculture and Trade
<b>Strategic Objective:</b>	170-0130
<b>Proposed FY 2004 Obligation:</b>	\$8,454,000 AEEB
<b>Prior Year Unobligated:</b>	\$1,400,000 AEEB
<b>Proposed FY 2005 Obligation:</b>	\$4,608,000 AEEB
<b>Year of Initial Obligation:</b>	1998
<b>Year of Final Obligation:</b>	2006

**Summary:** The goal of this program, Accelerated Growth and Development of Private Enterprise, is the development of a comprehensive legal and institutional environment for the promotion of growth of private enterprises. Coordinated technical and institution-building assistance is being provided to key Montenegrin government and private institutions in order to assist them in developing the capacities needed to create and continue to shape an institutional environment conducive to private sector development. Targeted institutions include: the Ministry of Finance, Central Bank of Montenegro, the Ministry of Economy; the Pension Fund; the electric power company; financial institutions such as the Opportunity Bank; and private NGOs conducting policy and consulting work, such as the Center for Entrepreneurship and Economic Development and the Institute for Strategic Studies and Prognosis.

### Inputs, Outputs, Activities:

#### FY 2004 Program:

Economic policy reform (\$8,454,000 AEEB, \$1,400,000 AEEB carryover). Reform is focused on the creation and institutionalization of an environment conducive to economic growth driven by private sector expansion. This phase of the activity is mainly focused on implementation and institution-building, following a period of intensive support for new legislation. The principal contractor is KPMG/Barents.

**Fiscal and macro-economic stability:** A primary focus of USAID interventions is to support the movement from a largely discretionary budget process with loose financial controls to a rigorous, analytic process that reflects the development needs of the Republic. Support is being given in implementation of best practice processes and procedures in budget analysis; treasury procedures and execution; pension reform and lowering of public transfers; debt control procedures and management; tax analysis; and, internal audit in the Ministry of Finance. On the revenue side, USAID is supporting the reorganization of the tax administration and the implementation of new taxes, including a value added tax (VAT). With the final closure of the former state monopoly payments system early in 2004, support is being provided to ensure that institutions that were dependent upon the system for operations and reporting have developed alternate methods. The principal contractor is KPMG/Barents.

**Financial Sector improvement:** After years of sanctions and state intervention of the banking sector, USAID will continue to provide support to increase credibility to the sector and improve financial intermediation. Following privatization of most of the banking sector, USAID is assisting in improving bank regulation. At this time, after two years of USAID support, the Central Bank is largely in compliance; deposit mobilization and a lack of credit continue to be a problem. FY 2004 will be the final year of USAID support for the successfully established Opportunity Bank. The principal contractor is KPMG/Barents.

**Private Sector Support:** FY 2004 will see the beginnings of a shift away from successful interventions in the macro level institutions toward more direct stimulation of the private sector. Private sector support is centered upon two types of activity designed to improve the overall competitiveness of Montenegrin companies. The first is to work with the Government both to implement new legislation and systematically

remove barriers to doing business in Montenegro, including stripping away bureaucratic interference in the licensing and trade regimes. The second will be in direct company support, both in technical assistance and in building trade associations active in advocacy. The principal contractor is KPMG/Barents.

**FY 2005 Program:**

Economic policy reform (\$4,608,000 AEEB). Policy efforts will continue in the implementation and permanent institutionalization of major reforms begun in previous years. FY 2005 activities will continue ongoing training for GoM officials, persons and organizations either in charge of implementing reforms, or affected by them. Activities will also focus on the assessment of reform legislation already passed, and the fine-tuning of that legislation, according to lessons learned. Overall, efforts will continue to move away from the macro level policy reform and toward interventions to stimulate the private sector. The principal contractors will be BearingPoint and one to be determined by tender.

**Performance and Results:** Considerable progress has been made both in the drafting and adoption of key reform legislation, and in the implementation of that legislation. Areas of particular success include the business organization law; the movable pledge system; the public procurement system; reform of the payments system; the banking laws; the first pillar pension reform; and, the budget law. Considerable work remains, especially in the full institutionalization of some of the more complex frameworks, but at this time it is believed that Montenegro is on a relatively stable path to reform. Continued assistance will ensure that the process of reform will move as rapidly and smoothly as possible. One critical area for ongoing implementation of reforms continues to be the judicial system. Without ongoing support here, especially in the commercial courts, progress could be jeopardized.

At the completion of the USAID-supported economic reform program, in coordination with other donors, Montenegro will have both the legal and operational foundations of a market economy. Though certain improvements will always be needed, the critical areas of budget preparation and execution; tax collection; bank supervision; pension fund management; collateral rights and bankruptcy procedures; payments system reform; and, electricity rate setting will be nearly fully institutionalized. The business regulatory environment will have stabilized and companies and shareholders will be apprised of their rights and obligations.

## Data Sheet

<b>USAID Mission:</b>	Montenegro
<b>Program Title:</b>	Democratic Transitions
<b>Pillar:</b>	Democracy, Conflict and Humanitarian Assistance
<b>Strategic Objective:</b>	170-0200
<b>Proposed FY 2004 Obligation:</b>	\$7,101,000 AEEB
<b>Prior Year Unobligated:</b>	\$350,000 AEEB
<b>Proposed FY 2005 Obligation:</b>	\$4,232,000 AEEB
<b>Year of Initial Obligation:</b>	2003
<b>Year of Final Obligation:</b>	2006

**Summary:** USAID's democracy and governance assistance in Montenegro is concentrated on strengthening the rule of law; civil society; political processes; independent media; and, anti-trafficking initiatives. It provides targeted technical assistance; training; sub-grants; and commodities support to improve the effectiveness, independence, and accountability of the judiciary. The capacity of civil society is developed through support to nongovernmental organizations (NGOs), political parties, and independent trade unions to effectively serve and represent citizens.

### Inputs, Outputs, Activities:

#### FY 2004 Program:

Judicial reform and rule of law (\$2,800,000 AEEB). The rule of law program was significantly enhanced, in July 2003, with a new judicial reform activity that provides technical expertise, training, and commodity assistance to improve the structure and operations of the judiciary, including the creation of the new Appellate and Administrative Courts and an Administrative Office for the judiciary. The activity works in cooperation with the Ministry of Justice, the Supreme Court, the subordinate courts, the Judicial Training Center, and other Montenegrin counterparts. Implementer: Checchi & Company Consulting, Inc.

Civil society and political processes strengthening (\$2,955,000 AEEB). Program assistance encompasses organizational development and advocacy skills building of NGOs; development of political party and parliamentary structures; education of trade unions through technical assistance and training; and sub-grants to local NGOs. Under the Montenegro Advocacy Program, core Montenegrin NGOs will resume building constituencies for judicial, economic, and social reform priorities and conduct public education on legislative initiatives. The political processes program will carry out expertise development assistance to political parties and parliamentary structures to strengthen the party decision-making process and improve internal party operations. In addition, the activity will concentrate technical assistance and training to strengthen legislative oversight and increase citizen participation in Parliament. The trade union activity will focus on building and modernizing trade unions' capacity to interact more effectively with government and employers on issues related to the implementation of economic reform legislation. USAID provides grant funds to the International Organization for Migration (IOM) to administer a shelter for victims of trafficking, operated through a local NGO. Other implementers include American Organization for Technical Research and Advanced Training, the National Democratic Institute, and the American Center for International Labor Solidarity.

Independent media support (\$1,346,000 AEEB; \$350,000 AEEB CO). The Montenegro Independent Media Program (MIMP) provides technical assistance, training, and commodity support to core media partners, the Montenegro Media Institute, to advance professional journalism, and the Union of Independent Electronic Media, to ensure the protection and promotion of the rights of independent broadcasters. It also provides technical assistance and equipment to support the Montenegrin Broadcasting Company, the weekly magazine Monitor, and the Montenegrin News Agency. MIMP-funded technical assistance has assisted in the implementation of media reform legislation. Radio B92, based in Belgrade, will receive a MIMP sub-grant of \$350,000 in AEEB carryover funds to set up

operations in Montenegro. The B92 media program will fill the existing gap in the flow of news between Serbia and Montenegro. The principal implementer is International Research and Exchange (prime).

**FY 2005 Program:**

Judicial reform and rule of law (\$1,618,000 AEEB). The judicial reform activity will continue providing technical assistance, training, and commodity support to implement the rules and procedures relating to the new Appellate and Administrative Courts and the Administrative Office established under the Courts Act. Technical assistance, training, and commodities support will concentrate on improving court operations and will include the provision of expert advice in judicial skills and court management. The activity will organize study visits on case management and court administration; establish a pilot on-site training program in cooperation with the Judicial Training Center; and implement facility upgrades in the courts, including information technology. Principal contractor is: Checchi and Company Consulting, Inc. (prime)

Civil society and political processes strengthening (\$1,714,000 AEEB). The MAP will implement its exit strategy and leave behind an infrastructure of advocacy resource centers, including the Advocacy Resource Center (ARC) based in Podgorica, and three additional regional advocacy centers. A one year follow-on activity is expected, making the ARC primarily responsible for administering advocacy skills-building and organizational development sub-grants to NGOs with advisory support from American ORT. The political processes activity will continue through February 2006. During the final two-year period, NDI will phase out of its political party and parliamentary development program in Montenegro, leaving in place internal party capacity to continue long-term reform and development initiatives, along with a parliamentary structure that is capable of representing citizens and functioning efficiently and transparently. The labor reform activity will phase out in FY 2005. Key elements of the activity, such as the establishment of economic and social councils throughout the Republic will continue under other appropriate USAID programs. USAID will continue to fund anti-trafficking initiatives such as grant support to operate a shelter for victims of trafficking or a public awareness campaign against trafficking.

Independent media (\$900,000 AEEB). A two-year follow-on activity is planned, to continue technical assistance, training, and commodities support for the advancement of professional journalism, business management, and implementation of the new legal and regulatory framework. This grant should ensure that advances made under the MIMP are irreversible and sustainable.

**Performance and Results:** The program made identifiable gains in improving the capacity of citizens to participate more effectively and knowledgeably in the reform process of Montenegro. Gains occurred in independent media as the Media Sustainability Index (MSI) for 2002 registered jumps in three essential areas: a 43% increase in media professionalism; a 64% rise in business/management of media outlets; and a 24% increase in free speech. As well, gains were made in the increased number (200) of outreach communications by political party leadership to voters and local party leaders in Montenegro's 21 municipalities. An improvement in FY 2003 from the previous year as it relates to the judiciary's capacity to protect citizens' essential civil and economic rights, there was also a 30% positive score across the 30 judicial reform indicators addressed in the Judicial Reform Index. While there was progress in an increased number of NGO advocacy initiatives and NGO-government cooperation, the NGO Sustainability Index 2003 score remained in the mid-transition range, signifying that the NGO sector as a whole is not yet sustainable.

## Data Sheet

<b>USAID Mission:</b>	Montenegro
<b>Program Title:</b>	Local Governance and Community Development
<b>Pillar:</b>	Democracy, Conflict and Humanitarian Assistance
<b>Strategic Objective:</b>	170-0210
<b>Proposed FY 2004 Obligation:</b>	\$13,589,000 AEEB
<b>Prior Year Unobligated:</b>	\$0
<b>Proposed FY 2005 Obligation:</b>	\$2,660,000 AEEB
<b>Year of Initial Obligation:</b>	1998
<b>Year of Final Obligation:</b>	2006

**Summary:** The USAID Civil Society and Local Governance Program in Montenegro consists of the Community Revitalization through Democratic Action Program (CRDA), to revitalize local democracy through strong citizen participation, and the Good Local Governance (GLG) program, to strengthen the capacity of local governments to provide services in a transparent, participatory manner.

### Inputs, Outputs, Activities:

#### FY 2004 Program:

CRDA Program (\$9,660,000 AEEB). The CRDA Program focuses on improving economic and social infrastructure and undertaking activities that result in increased job opportunities particularly for low-income families. It is estimated that 396 projects will be initiated during FY 2004, directly benefiting 485,000 people and generating 4,550 person months of employment. Emphasis is shifting more into cluster community projects affecting multiple communities and with a greater emphasis on economic development, income generation, job generation and social development. It is estimated that the CRDA Program in FY 2004 will implement up to 35 small- and medium-sized enterprise SME grants in equipment, machinery, livestock, durable goods, or specialized consulting/advisory services to create new or expanded business ventures. These economic revitalization programs work with promising partners who cannot afford or do not qualify for commercial micro and SME credit resources. A new component of the CRDA Program, municipal development assistance, will be implemented in FY 2004. Through a broader based stakeholder process called the "municipal development advisory councils", CRDA communities, local government and the private sector, will undertake municipal-scale infrastructure and economic development projects. Primary grantees are: International Relief and Development (prime) and Cooperative Housing Foundation International (prime).

Good Local Governance Program (\$3,929,000 AEEB). The three-year program initiated late in FY 2003 provides technical assistance, training, and small-scale procurement to support implementation of the new legal framework for local government. It emphasizes greater transparency through fiscal decentralization reforms; improved delivery of public services; and increased citizen participation in all processes of local governance. During FY 2004, the focus will be on urgently needed assistance to establish republic-wide local treasury systems to complement the new republic-level treasury system and to assume functions from the dismantling of the old socialist payments system. The program will work closely with the Ministry of Finance and the Secretaries of Finance of the 21 municipalities to structure the functions and reporting for a new intergovernmental fiscal system and to continue support on evolving professional local systems for own-source taxation, in particular property taxation, focusing on improved data and significantly increased collections. The GLG program will also initiate corporate management training for water companies in efficient utility water supply operations. The program will seek to develop citizen participation in every aspect of the program's scope of work with local governments. The implementer is the Urban Institute (prime).

**FY 2005 Program:**

Community Revitalization through Democratic Action Program (CRDA): CRDA will be evaluated during FY 2004. The results of that evaluation will be factored into a decision on extending the program beyond April 2005.

Good Local Governance Program (\$2,660,000 AEEB). The Program will be in full operation to continue structuring and capacity building for implementation of key functions of representative and open local self government with active involvement of citizens in local governance processes and decision-making and close cooperation with the CRDA communities. CRDA and GLG programs complement each other and secure the broadest and deepest seated results at the grassroots level for sustainable development practices. The implementer will remain the Urban Institute.

**Performance and Results:** At the end of FY 2003, the CRDA program was present in 112 communities covering the majority of the Republic's population. Broader participation was enabled through 61 cluster councils representing collaboration of multiple communities. These communities, through community councils, have selected, designed and carried out 356 economic and social development projects in basic infrastructure, income and employment generation, environmental improvement and civic activities worth \$17 million. The poor and deteriorating basic infrastructure dictated program expenditures on infrastructure investments during FY 2003 (49% in the north, and 69% in the south). Investments included transport, sanitation/waste management, school rehabilitation, and energy. Economic activities have generated 4,792 person-months of employment and increased income generation and economic output of enterprises. Communities are required to provide 25% of project costs, but have exceeded this requirement reaching on average 42% of project costs from non-USAID resources. Communities and their local partners who have benefited from significant capacity building under CRDA Program are expected to serve as a key foundation for implementing democratic governance reforms mandated by new local government laws. The GLC program was only initiated at the end of the FY 2003.

## Data Sheet

<b>USAID Mission:</b>	Montenegro
<b>Program Title:</b>	Cross-Cutting Programs
<b>Pillar:</b>	Economic Growth, Agriculture and Trade
<b>Strategic Objective:</b>	170-0420
<b>Proposed FY 2004 Obligation:</b>	\$1,500,000 AEEB
<b>Prior Year Unobligated:</b>	\$1,121,000 AEEB
<b>Proposed FY 2005 Obligation:</b>	\$1,500,000 AEEB
<b>Year of Initial Obligation:</b>	2001
<b>Year of Final Obligation:</b>	2006

**Summary:** This objective is designed to accommodate activities that make significant contributions to more than one strategic objective. It finances program development costs, program assessments, learning efforts and other program operational costs.

### Inputs, Outputs, Activities:

#### FY 2004 Program:

Program support and assessment (\$1,500,000 AEEB, \$1,121,000 AEEB carryover). U.S. and local expertise will be funded to assist with program support and assessment including two field offices to be opened in FY 2004 to support the Community Revitalization through Democratic Action (CRDA) and Good Local Governance (GLG) Programs. The balance of the funds being requested will be used for program-related activities that affect more than one Strategic Objective, such as activity design, evaluations and training. In FY 2004, the Mission intends to conduct the following assessments: media, and civil society assessment, and CRDA.

#### FY 2005 Program:

Program Support and Assessment (\$1,500,000 AEEB). U.S. and local expertise will continue to be funded to assist with program support and assessment. Funds from this Strategic Objective are also planned for activity design, evaluations, training, and other program operational costs.

**Performance and Results:** The Montenegro Office is part of, and supported in many functions by, USAID/Serbia and Montenegro, headquartered in Belgrade. The roles have been clearly delineated and coordination has been effective.